Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Correa, et al.	Analyst:	Roger Lackey	Bill Number:	AB 1846
Related Bills:	See Legislative History	Telephone:	845-3627	Introduced Date:	01-28-2002
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zones/Extends To All Zones 20-Year Designation Period

SUMMARY

This bill would allow all enterprise zones (EZ) to be designated as an EZ for 20 years.

PURPOSE OF THE BILL

The author's office has indicated the purpose of the bill is to allow EZs designated after 1990 to be eligible to have the EZ designation period extended.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2003.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law provides for the existence of empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Qualified zone businesses operating in federal empowerment zones and federal enterprise communities are eligible to receive two tax incentives: (1) tax-exempt private activity bonds to finance certain facilities; and (2) the "brownsfields" tax incentive, which allows taxpayers to expense (rather than capitalize) certain environmental remediation expenditures. Qualified empowerment zone businesses are allowed an additional $20,000 depreciation expense deduction.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within an EZ.

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an EZ. Using specified criteria, the Technology and Trade and Commerce Agency (TTCA) designates enterprise zones from the applications received from the governing bodies. EZs are designated for 15 years (except EZs meeting certain criteria may be extended to 20 years).

Board Position:			Department Director	Date
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An EZ designated prior to 1990, may have its designation period extended to 20 years if it meets the following requirements:

- The EZ received a superior or passing audit from TTCA.
- An updated economic development plan is submitted to TTCA, that justifies the additional five-year designation period.

THIS BILL

This bill would remove the existing limitation on the period of designation for EZs created after 1990 so that EZs created after 1990 are eligible to have the period of designation extended to 20 years.

Based on information from TTCA the following EZ's would be eligible for the extended designation: Altadena/Pasadena; Antelope Valley; Coachella Valley; Delano; Kings County; Lindsay; Long Beach; Merced/Atwater; Oakland; Oroville; Richmond; Army Depot (Sacramento); San Ysidro/Otay Mesa; San Francisco; Santa Ana; Shafter; Shasta Metro Redding/Anderson; Shasta Valley Siskiyou County; Stockton; and Watsonville.

IMPLEMENTATION CONSIDERATIONS

It's not clear whether TTCA would have to approve the extension of a designation period or if the EZ meeting the criteria for extension, as discussed above in Federal/State Law, would be sufficient for the extension.

Once the implementation consideration is resolved, implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 243 (Battin, 1995/1996) would have extended the designation date for all EZs and increased the expansion of EZ areas to 25% from 15%. AB 243 died in the Senate Appropriations' suspense file.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that allow similar tax related incentives to those provided in California's economic development areas. However, no information was found stating the length of time other states designate economic development areas.

FISCAL IMPACT

This bill would not impact departmental costs.

ECONOMIC IMPACT

Revenue Estimate

Revenue Impact Five-Year Extension of Enterprise Zones ($ Millions)			
Fiscal Year	2006-07	2007-08	2008-09
Revenue Loss	Minor Loss*	(5)	(10)

Minor loss is less than $500,000.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

The revenue impact of this bill would first occur in 2007 when those EZs designated in 1991 would expire under current law. The use of tax incentives by established EZs would be more effective than the use of those incentives by newly designated EZs. Generally, new EZs require time to promote and educate taxpayers about the new tax incentives available in a new EZ. As a result, revenue losses would occur due to established EZ's more effective use of the tax incentives compared to the new EZs. Under current law, the new EZs would be designated after the expiration of the established EZs.

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